

S
385.05
H3m
MAY 1980

STATE DOCUMENTS COLLECTION

May, 1980

MONTANA STATE LIBRARY
930 E Lyndale Ave.
Butte, Montana 59601



PLEASE RETURN

Number 5

RAIL PLANNING

NEWSLETTER

PREPARED BY: RAIL PLANNING UNIT, MONTANA DEPARTMENT OF HIGHWAYS

The Grain Subterminal Study

In January, 1980, the Departments of Highways and Agriculture began work on a feasibility study to determine quantitatively (so far as is possible) the economic and institutional possibility of changing Montana's grain transportation system to gain the efficiencies of central collection and unit train freight movements. A contract has been executed with the firm of Roger Creighton Associates Incorporated of Delmar, New York, to assist the two Departments in conducting the study.¹ (In the summer of 1979, RCAI assisted the Department of Highways in preparing the *Montana Rail Plan*).

The study has three major phases. In the first phase, the economic and institutional feasibility of the grain subterminal concept will be carefully evaluated and the number and approximate location of such facilities will be determined. Feasibility depends upon whether subterminals can generate sufficient economic benefits for Montana farmers and elevator operators to overcome the inherent fear and distrust of a major change in the transport and marketing of grain, and whether elevator operators and other grain shippers are willing to combine their shipments into unit train quantities bound for a single destination while retaining their independence and competitiveness in other areas. Assuming the grain subterminal concept to be feasible, the second phase would develop public support and prepare necessary legislation to bring such terminals into being. A third phase would be to proceed with project planning, preconstruction activities, land acquisition, tariff negotiations, etc. for a pilot grain subterminal project. The transportation of grain, development and promotion of foreign markets, research, and alternate sources of energy were listed as the most important concerns of Montana grain growers in a survey conducted by the Montana Grain Growers Association last October. The unavailability of railroad grain cars (until recently), the relatively slow and unreliable transit times for shipments by rail, the increase in grain movements by truck/barge along with the resulting impact upon diesel fuel usage, and the impact of truck traffic upon major highways, especially Route 200 west of Great Falls, together add a sense of urgency to this study. Unless grain transportation is significantly improved, Montana grain growers will become increasingly disadvantaged in comparison with producers located in other states. With Asian markets increasing at three to five percent a year, a loss in competitiveness is something which Montana producers can ill afford.

Grain subterminals by themselves cannot solve all of Montana's grain transport problems. They do offer promise in introducing economies of scale to a transport mode which otherwise has changed very little over the past 40 to 50 years. Basically, elevators order empty cars from the railroad which are then located and forwarded (under single car rates) to a variety of destinations in the northwest and midwest. In spite of the problems identified above and gradually increasing diversion to truck/barge, railroads still dominate in the movement of Montana grain. Consequently little incentive presently exists by which railroads would improve service or offer economic incentives to elevator operators to use the rail system.

Over the years, various alternatives have been proposed, such as multi-car rates, grain trains, subterminals, and unit trains. While these concepts have been discussed off and on for quite

some time, nothing has happened. The explanation lies in the sheer magnitude of the marketing changes required to achieve the volumes necessary to induce railroad rate reductions. So far, private enterprise has not been able to assemble the point-to-point grain volumes necessary to sustain more efficient forms of rail transport.

It is important to appreciate the major strengths and weaknesses of the proposed concepts from both railroad and elevator operator perspectives. Multi-car shipments today are quite feasible at the larger elevators and are being made today, although no rate reduction is being offered by the railroads serving Montana. While some switching time is saved over that required in handling single cars, the reduction in terminal costs is relatively small in comparison with the total cost of the movement. No savings occur in terms of transit time, car utilization, or in the number of points served or miles of track operated. In the past, the BN has concluded that multi-car shipments do not provide sufficient operational economies to warrant the introduction of multi-car rates. However, recently the UP instituted such rates on its lines through Wyoming, Idaho and Oregon. Whether this will eventually affect BN's stance remains to be seen.

Grain trains were tried briefly some years ago. Such a train consists solely of loaded or empty grain cars rather than the mixed freight typical of rail service in Montana. The only advantage of such trains is the elimination of some switching operations due to the concentration of traffic for fewer West Coast destinations with some reduction in transit time. The major disadvantage is that additional local train operations may be required to handle non-grain traffic. While the concept may be appealing, such trains apparently offer little in operating savings.

Both multi-car shipments and grain trains require practically no institutional and/or marketing changes and thus would be popular with elevator operators. In short, it represents the continuation of business "as is".

The *Montana Rail Planning Newsletter* Number 3 contains a succinct explanation of grain subterminals and unit trains, which are expected to provide appreciable operating and car ownership economies to railroads, and thus offer far greater potential than multi-car rates and grain trains. A 60-car unit grain train can carry approximately six thousand tons or 200 thousand bushels of wheat. Such a train, if efficiently utilized, could conceivably make upwards of 50 round trips per year between Montana and west coast ports. This amounts to ten million bushels of wheat annually. Total wheat production in Montana in recent years has ranged between 85 and 167 million bushels annually. Thus, one unit train operating in a shuttle-type service has a tremendous capacity to move grain. As previously indicated, multiple west coast destinations do exist, thus mitigating against the introduction of unit train service. Of the approximately 260 elevators in Montana, none is presently equipped to handle unit trains efficiently. While a few may have sufficient storage capacity, none is today approaching the volumes required to make such service feasible. No elevator presently has this throughput.

To achieve this scale of throughput, either the large elevators are going to have to grow larger (presumably at the expense of smaller elevators, the independents, or the financially weaker firms) or elevators are going to have to voluntarily join together in the marketing and transport of grain, with or without governmental encouragement. Provided that the capital can be raised, it isn't

too difficult to construct the storage and loading facility required for servicing unit trains. The institutional aspects are a far greater challenge than providing the physical infrastructure. So long as rail service and car supply remains tolerable, there is little incentive for undertaking the fundamental changes required to realize economic gains from unit train economies of scale. While rail costs (and hence rates) are expected to go down with volume shipments, this is partially offset by the cost of operating and amortizing the grain subterminal facility and increased grain assembly costs.

Hence, the need to determine the economic and institutional feasibility of the grain subterminal concept as applied to Montana and then, if proven to be feasible, to determine the number, location, and organizational/institutional mechanisms for implementing the required number of grain subterminals for the state.

A reoccurring concern is whether grain subterminals require governmental involvement, either for planning or implementation. First of all, government always has the right to investigate situations which, if carried out, might significantly improve the economic efficiency of a particular sector of the state's economy. Whether state government chooses to do anything about it, either directly or indirectly through local governments or the private sector, is another matter quite apart from the planning question. What the two Departments hope to accomplish is (1) reduce the cost of transporting grain to the principal markets on the west coast, (2) provide access to grain subterminals by all elevators, (3) provide the incentives needed by the BN to reduce rates, and (4) maintain competition in the marketing of grain. What government seeks to avoid is (1) siting of grain subterminals in only the most lucrative areas in Montana, (2) forcing the smaller elevator or independent out of business through denying access to grain subterminal facilities, (3) establishing multiple terminals by the larger grain public warehouses in competition with each other when the more efficient course of action would be a consolidated facility, thus driving up the costs of marketing through the operation of duplicatory facilities (one grain firm establishes a terminal forcing the other major firms to follow suit), and (4) becoming directly enmeshed in the grain marketing business. Without government action, (1) it will take a long time to achieve the resulting economies of scale from multi-car or unit train operations, (2) there will probably be more rapid and less-orderly change in grain marketing as the big firms grow larger through achievement of greater economies of scale and the smaller firms are forced out of business, and (3) the "package deal" incentives to the railroads which involve grain car ownership and possible branchline service elimination in addition to increasing the size of point-to-point movements will not be there, thus affecting the magnitude of the rate reductions potentially obtainable through multi-car and unit train rates. It is well to remember that present single-car rates are an "equalizer" between elevators of all sizes.

Given the importance of this study to the grain industry in Montana, future editions of this newsletter will describe the analytical processes being utilized and the overall results obtained as the different tasks and subtasks are undertaken and completed.

¹Associated with RCAI is Radermacher & Associates (a Billings-based transportation and marketing firm) and Robert Peccia & Associates (a Helena-based transportation planning and civil engineering firm)

Update of Milwaukee Situation

Readers of previous **Rail Planning Newsletters** probably recall a series of articles of interest to those who closely follow the trials and tribulations of the Milwaukee Road. The following attempts to briefly summarize the many events which have transpired since September, 1979.

In the aftermath of the Court's early June decision, which narrowly averted an embargo of rail service on the western lines, a group of shipper and employee interests agreed to form a Washington-based non-profit corporation, known as the "New Milwaukee Lines" (New Mil), to serve as a mechanism for putting together a new railroad corporation. This organization has, and continues to receive strong Montana support and encouragement. The objective of New Mil is to ensure continued, competitive rail service in regions currently served by the bankrupt Milwaukee. In September, SORE and New Milwaukee Lines each filed a preliminary plan of reorganization for the Milwaukee's estate with the District Court. SORE's plan proposed a reorganized system operating the Milwaukee's lines west from the Twin Cities to the

west coast. New Milwaukee Lines proposed a configuration stretching from Louisville. Each plan was filed under substantial time pressure and recognized the need for subsequent development and amendments.

Because of the magnitude and complexity of the problems facing the Milwaukee and the public it serves, and because of perceived inadequacy of normal abandonment and reorganization procedures, considerable pressure was exerted on Congress to provide a more appropriate means for restructuring the Milwaukee. Many legislators felt that the option of an employee or employee-shipper-owned railroad needed to be considered and analyzed more fully. A second issue was the magnitude of the labor protection claims upon abandonment or embargo. A third issue was the taxpayer cost of directed service over embargoed lines and the fact that this action would only postpone the day of total cessation of rail service.¹ Congress passed the Milwaukee Railroad Restructuring Act (MRRRA) on November 2, 1979; the President signed the Act on November 4, 1979. The legislation directs the ICC and the District Court to give prompt and expedited consideration to a plan for saving the railroad by reorganizing the Milwaukee into an employee-shipper-owned carrier operating a restructured and self-sustaining system. The statute provided funding to keep the entire railroad operating during the period required for consideration of this alternative, and granted the reorganization court-sweeping powers to quickly approve abandonments on all lines not included in the employee-shipper-owned system. If the resulting plan is not approved by the ICC and the Court, the Act precludes any directed service on the Milwaukee system until April 1, 1981. The Act includes a series of tight deadlines which have to be met by the principal parties.

On December 1, 1979, the New Milwaukee Lines filed its employee-shipper-ownership plan for the reorganization of the Milwaukee Railroad with the ICC and Reorganization Court. The plan prepared by the New Milwaukee Lines proposed that a new employee and shipper-owner corporation be formed to operate a scaled-down system, amounting to approximately half of the Milwaukee's present total route mileage. The new railroad would have extended from the northwest ports of Seattle, Tacoma and Portland across the transcontinental mainline through the Twin Cities to Milwaukee, Chicago and Louisville, KY. The plan proposed acquisition of all of the Milwaukee Road's present equipment and locomotive fleets; an immediate return to normalized track and equipment maintenance; implementation of a seven-year program to acquire more than \$540 million worth of modern freight cars; and a track rehabilitation program estimated to cost approximately \$211 million. Necessary working capital was to be raised by shipper investments of \$10 million, and a loan of \$15 million to be raised by creation of an employee stock-ownership plan. The plan also called for the new company to take on approximately \$120 million of new federal debt in order to fund portions of the rehabilitation program. The plan encompassed commitment from rail labor to participate in a task force program to negotiate changes in the new system's operating practices. These changes, when coupled with the employee stock ownership program and the physical rehabilitation of the plant, were expected by the New Milwaukee Lines to result in significant improvements in labor productivity.

On December 31, 1979, the ICC rejected the New Mil plan because it lacked adequate financing, was not financially equitable to the Milwaukee Road's estate, and could not be made self-sustaining. At the same time the Commission reaffirmed the need for rail competition across the northern tier of states.

The ICC agreed to reconsider a modified plan and supporters of the New Mil subsequently filed one which reportedly had some new features worked out on private financing. Montana continued to support the New Mil plan as its preferred solution; however, Montana was not particularly optimistic that this plan would be successful.

Two other reorganization proposals were also submitted for ICC consideration under the MRRRA. The "Core II" reorganization, proposed by Trustee Ogilvie, would have reduced the Milwaukee Railroad to midwest service with western extension severed at Miles City, MT. The third proposal came from Milwaukee creditors calling for total liquidation of all Milwaukee railroad properties. On March 19, 1980, the ICC rejected all three plans proposed for the bankrupt Milwaukee Road. The commission said that none of the plans fully met its criteria of "maximizing rail service and assuring fair equitable treatment of the estate." The ICC, however, said it would retain control of the issue, hoping that "by retaining jurisdiction, it should encourage continued movement toward a

Milwaukee Road restructuring that comports to the public interest." It expressed hope that new and better reorganization plans would be put forward.

In early January, 1980, PLM (a San Francisco-based car-leasing company) presented its plan for retaining competitive rail service on Milwaukee Lines in Idaho and Montana. This plan was developed as a result of encouragement provided by Montana officials. As such, it aroused considerable interest and some controversy. It was the only other proposal (to New Mil) for competitive Montana rail service which had been submitted to Montana or the Federal government to date. The proposal indicated that continued operation of Milwaukee Lines in Montana, Idaho and eastern Washington would be feasible if rehabilitated and operated in a lean, efficient fashion.²

Montana officials began a follow up on the concept of an alternative railroad operation from Miles City to Marengo. As a result of negotiations conducted between Thomas L. Judge, Governor of the State of Montana, and Richard B. Ogilvie, Trustee of the property of the Chicago, Milwaukee, St. Paul and Pacific Railroad Company, whereby the Trustee offered to the State of Montana the opportunity to acquire Milwaukee properties in Montana, Idaho, and eastern Washington for \$55 million, Governor Judge on February 1, 1980, forwarded to the Federal government an application to provide for the acquisition and rehabilitation of Milwaukee Lines in Montana, Idaho, and eastern Washington. Montana has not in the past, nor does it now seek, long-term ownership or operation of Milwaukee Lines in Montana, and is taking this step only because there no longer appears to be any practical way to ensure continued operation of these lines after March 1, 1980. Under this application, the State of Montana would acquire title to the rail properties between Miles City, MT and Marengo, WA. A Montana-based non-profit corporation would be established to oversee the acquisition and rehabilitation financing and the general operation of rail lines acquired by the State. To do this, the corporation would execute a lease-purchase agreement with a qualified operator selected on the basis of available investment capital and railroad operating experience to provide the required rail services and eventually acquire the property from the State. Thus, Montana ownership of Milwaukee Lines is viewed as an expedient solution to an immediate problem and not an end in itself.

While there are some who think that reorganization will go on indefinitely, the mood of the Federal government, the Reorganization Court and Congress appears to be one of settling the issue and not dragging it out further. Should Montana be successful (1) in raising necessary venture capital, (2) securing the request loans and grants from the Federal government, and (3) concluding negotiations with the Trustee, then it should be possible to establish a successor rail operation in May-June. If any one of the above three prerequisites are not met, then independent carrier operation of the trackage between Miles City, MT and Marengo, WA is unlikely. Should this happen, Montana anticipates that the Trustee's sale of portions of the trackage to the BN will be completed. Such action would foreclose once and for all competitive rail service in Montana.

Today there is an embargo on the Milwaukee operations west of Miles City. While rail service has stopped, there has been no transfer of title and the Milwaukee Railroad has not relinquished its interests in the properties. The Trustee has accepted the BN offer to purchase portions of the line and the BN is providing "directed service"³ on these line segments. While this sale has been approved by the reorganization court, the ICC has not taken any action. ICC approval of the BN sale would be premature without resolution of railroad reorganization feasibility. Montana officials are proceeding expeditiously to complete detailed plans for a successor railroad to preserve competitive rail service.

We will continue to advise our readers on this issue in future editions of the Rail Planning Newsletter.

Additional Light Density Lines to be Studied

In the last newsletter we announced an "extension" of the detailed light density line assessments to additional lines. In Montana, some 1800 route miles (out of a total of 4800 miles) meet Section 803 density criteria and thus could become the subject of potential track rehabilitation projects. The following seven lines have been selected for detailed study:

RR	Line (Termini)	Length
BN	Beach, ND—Carlyle	20.8'
BN	Power—Pendroy	44.5
BN	Hesper—Rapelje	38.2
BN	Livingston—Brisbin	10.3
BN	Sappington—Harrison	10.0
BN	Whitehall—Alder	45.6
BN	Missoula—Darby	65.9

¹ 2.9 miles in Montana

The same technical procedures as were utilized last summer (and described in Newsletter Number 2) will again be employed. The analysis work will be done by the firm of Roger Creighton Associates, Incorporated in association with Robert Peccia & Associates and Railway Multi-Engineering, Incorporated (a Portland, Oregon firm specializing in railroad engineering and construction). All three firms were involved in preparing the *Montana Rail Plan*.

¹ Because of anticipated Congressional action, no directed service orders were instituted to soften the November 1st embargo authorized by the District Court. A temporary embargo did, in fact, occur.

² Montana did not commit to this proposal and considers PLM to be only one of a number of possible operators who could potentially provide local rail services after March 1, 1980.

³ Service provided by BN on these lines will be compensated only by line revenues. There are no directed service subsidy payments and maintenance of way costs will be born by the operator and are not recoverable by government subsidy or from the Milwaukee estate.



Rail Planning Section
Montana Department of Highways
2701 Prospect Ave.
Helena, MT 59601



May, 1980

Number 5

RAIL PLANNING

Rail Planning Newsletter Reactivated

Some of our readers have undoubtedly wondered what happened to the Department of Highway's *Rail Planning Newsletter*. Well, it is finally back after a long "break-in-the-action." Present plans are to publish the newsletter on a quarterly schedule.

Editors Note:

This is the fifth edition of a newsletter prepared by the Rail Planning Unit of the Montana Department of Highways to keep those interested in rail planning in Montana informed of (1) the status of planning activities, (2) criteria and goals for rail service, (3) the analytical methods being utilized, and (4) findings and conclusions.

This edition largely focuses on the grain subterminal study being conducted jointly by the Departments of Agriculture and Highways. We invite those interested in this particular study to write or call to be included on the mailing list to receive future copies of this newsletter.

We again invite questions and comments of general interest to our reading audience. We will be happy to respond to such questions through the newsletter.

900 copies of this public document were published at an estimated cost of .35 per copy for a total cost of \$317.30, which includes \$212.30 for printing, and \$105.00 for distribution.

Mr. John D. Craig, Manager
Rail Planning Unit
Montana Department of Highways
2701 Prospect Avenue
Helena, MT 59601
(406) 449-3984